

VERMONT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

Meeting of the Board of Trustees

December 28, 2004

Board members present:

STEVEN JEFFREY, Chairperson, Employee Representative (term expiring July 1, 2007)

DAVID LEWIS, Employer Representative (term expiring July 1, 2006)

MARIE DUQUETTE, Governor's delegate

Elizabeth Pearce, Deputy State Treasurer representing JEB SPAULDING, State Treasurer

W. JOHN MITCHELL, II, Vice-Chairperson, Employee Representative (term expiring July 1, 2005)

Also attending:

Cynthia Webster, Director of Retirement Services

David Minot, Director of Investment Services

The Chairperson, Steve Jeffrey, called the meeting to order at 8:40 a.m. on Tuesday, December 28, 2004, in the Ethan Allen Room at the State House, Montpelier, VT

ITEM 1: Approval of the Minutes of November 16, 2004 Investment Meeting November 16, 2004 Joint Meeting December 9, 2004 Joint Meeting

On a motion by Mr. Lewis seconded by Mr. Mitchell, the Board unanimously voted to approve the Investment Meeting minutes of November 16, 2004, Joint Meeting minutes of November 16, 2004, and Joint Meeting minutes of December 9, 2004, as submitted.

ITEM 2: Ratify the Disability Retirement for: Fay C. Lariviere

On a motion by Mr. Mitchell seconded by Mr. Lewis, the Board unanimously voted to ratify the previous ballot vote to approve the disability retirement for Fay C. Lariviere, as recommended by the Medical Review Board.

ITEM 3: Legislative Initiatives

Ms. Webster distributed a copy of proposed bill language crafted by Steve McQueen and submitted to Winooski Representative, Ken Atkins, for sponsorship. The Board discussed the merits of the mandate for post employment health care coverage for Group D members.

On a motion by Mr. Lewis seconded by Ms. Pearce, the Board unanimously voted to oppose the *Municipal Retirement, VMERS Group D, health insurance* proposal as presented based on the irresponsibility of the initiative; fiscally in light of GASB 43 & 45 results, the disregard of provisions for other VMERS members, and for imposing an expense on the current membership to benefit a select few retirees, who did not contribute towards the benefit during their active membership.

Ms. Webster informed the Board that proposed changes to the disability statutes, previously discussed at the November 16th meeting, would be wrapped into an omnibus bill with the other two retirement systems' changes, and other Summer Retirement Study Committee recommendations.

The Board agreed to discuss, if necessary at a later date, the prudence in separating their legislative amendments from the other two systems, if interests that don't pertain to the VMERS plan bog down the omnibus bill.

Ms. Pearce advised the Board that Mr. Spaulding met with Mr. Crippen and Mr. Cook, as requested at the November 16th meeting. She reported that concerns remained regarding the definition of employer/employee. Ms. Pearce advised Mr. Jeffrey that another meeting was suggested, which would include the Chair. Mr. Jeffrey agreed.

Mr. Jeffrey asked that Ms. Webster draft language for the definition of Employer & Employee, with the Attorney General's assistance, for inclusion in the omnibus bill, in the event some other compromise or consensus is not reached in the yet-to-be scheduled meeting with Mr. Crippen and Mr. Cook.

The Board also discussed the potential for language amendments to §5069. Ms. Webster was asked to also draft change proposals for this section, for the Board's review.

ITEM 4: Financial Review

Ms. Pearce distributed a draft 4-year summary of VMERS DC operation fees and related administrative expenses. She said a final report would be distributed as timely as possible.

The Board discussed the estimated \$32K per year anticipated DC Plan expenses and options to meet the system's liability. Ms. Pearce advised the Board an accrued forfeiture balance of \$64K existed in the plan. She explained if the Board moved to apply that sum toward the approximate \$119K IOU to the DB Plan from the DC Plan for "since inception expenses paid", a balance of approximately \$60K would remain payable to the DB Plan. She said per participant fees collected and future anticipated forfeitures still would not cover estimated annual expenses.

Mr. Jeffrey requested a detailed, total revenue/expense by year with cumulative balances to be distributed to the Board. Mr. Lewis requested a statistical estimate of future forfeitures.

ITEM 5: DC Administration Expenses

Mr. Minot advised the Board of his follow-up conversation with Fidelity Investments regarding the possibility of allowing entities to report directly to the record keeper. He said an annual charge for services to establish separate reporting vehicles for the existing 90+ entities to be approximately \$150K per year.

The Board discussed alternative proposals to the administrative expenses dilemma. Among other suggestions the Board considered closing the option to new participants, increasing per participant fees, and changing record keepers. The Board agreed the need to increase revenue to cover administrative expenses must be a solution that does not erode the base built in the program or discourage future participation.

The Board requested Ms. Webster to prepare an analysis for the February meeting of whether ICMA-RC and/or Great-West Services have existing accounts with the 90+ participating DC Plan entities, whether DC entities could report directly to them.

ITEM 6: Discuss Agreement to Participate in VSERS Global Bond Search

Mr. Minot explained the Vermont State Employees' Retirement System was in the process of an Investment Consultant database Global Bond Manager search. He explained that despite the VMERS approved asset class in their *Investment Guidelines*; the Board has yet to invest an allocation. He said the opportunity to participate in the search currently in process would position the Board for investment in the class, if they moved in that direction, without having to repeat the process.

On a motion by Mr. Mitchell seconded by Ms. Duquette, the Board unanimously voted to authorize participation in the VSERS Global Bond Manager search.

The Board acknowledged participation would be involvement in culling the "long list" to the "short list", and participation in the interview process. The Board unanimously agreed that Ms. Duquette would represent the VMERS Board in the process and she would report recommendations back to the Board.

ITEM 7: Discuss Astley Correspondence

The Board referred to page 9 of the 2004 Actuarial Valuation to review the results of changes in the DB Plan's actuarial assumptions. The Board then discussed the December 17, 2004 report from Mellon containing information on healthcare savings accounts (HAS), and other health care vehicles.

Mr. Jeffrey summarized his proposal, providing certain conditions were available, in part the plan proposed taking approximately ½ of the of the surplus (or \$3.9 million) to establish an account for all vested members that they would have access to for health care, on a tax free basis if possible. He said the retiree accessibility would be based on years of active service, and a commitment from the Board for future contributions from the DB Plan surplus would be made. He said perhaps both the employer and employee could make contributions to the account, but these and other options could be complicated.

Ms. Pearce advised that the IRS was expected to issue a letter regarding HAS, and other health care regulations in June. The Board discussed the need for legal advise from an attorney with tax and public benefit programs experience.

On a motion by Ms. Duquette seconded by Mr. Lewis, the Board unanimously voted to explore the need, and to draft if necessary language for §5069, to provide the VMERS more flexibility to research and consider various health care options, and to authorize staff to hire competent legal counsel with tax and public benefits experience to advise and assist the Board in alternatives.

As timely as possible, Ms. Pearce will provide a list of possible candidates and fee proposals for the Board's comments.

Mr. Jeffrey will draft the framework of his proposal to be fine tuned with the assistance of the attorney, actuary, and other necessary parties.

ITEM 8: Review/Discuss Investment Manager Choices

Mr. Minot distributed NEPC's December 2004 proposal for Large Cap Mixes and Correlations of the index managers selected at the December 9th meeting. The Board reviewed the information and was advised that in NEPC's opinion Mix K was the most appropriate. Mr. Minot said the return data used in the report was from a historic 5-year period and that NEPC felt moving forward the major contributions to the past returns by the SSgA's equal weighted product would decline. He said they recommended, and he agreed, to the proposal for a smaller allocation to the equal weighted index, and more to the enhanced and portable alpha index products.

Mr. Mitchell made a motion seconded by Ms. Pearce, to adopt Mix K.

Mr. Lewis made an amendment to the motion seconded by Ms. Duquette; to substitute Mix A for Mix K. Motion failed on a vote of 2 to 3 - Mr. Lewis and Ms. Duquette voted yes. Mr. Jeffrey, Mr. Mitchell, and Ms. Pearce voted no.

On a vote of the original motion to adopt Mix K, the motion passed 4 to 1. Mr. Jeffrey, Mr. Mitchell, Mr. Lewis, and Ms. Pearce voted yes. Ms. Duquette voted no.

ITEM 9: Any other business to be brought before the Board

Mr. Minot advised the Board the Vermont State Teacher's Retirement System's Board was conducting an advertised search for an International Equity manager. The Board discussed the merits of participating in this search also, with the same conditions and options available to them as discussed in the Global Bond search.

On a motion by Ms. Pearce seconded by Mr. Lewis, the Board unanimously voted to participate in the VSTRS International Equity manager search.

The Board acknowledged participation would be involvement in culling the "long list" to the "short list", and participation in the interview process. The Board unanimously agreed that Ms. Duquette would represent the VMERS Board in the process and she would report recommendations back to the Board.

The Board discussed and agreed if either of the large cap managers were scheduled for the February or May meetings, they could be removed and advised of the change in the schedule.

On a motion by Mr. Mitchell seconded by Ms. Duquette, the Board unanimously voted to adjourn at 10:55 a.m.

Next Meeting Dates:

The next scheduled quarterly investment meeting will be Tuesday, February 15, 2004.

Respectfully submitted,

Cynthia Webster
Secretary to the Board